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CROWLEY MARITIME CORPORATION

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA – SAN FRANCISCO DIVISION

CROWLEY MARITIME CORPORATION,

Case No. CV-08-00830 SI

Plaintiff,

VS

FEDERAL INSURANCE COMPANY; TWIN CITY FIRE INSURANCE COMPANY; RLI INSURANCE COMPANY; and DOES 1-20, inclusive,

**PLAINTIFF CROWLEY MARITIME
CORPORATION'S REQUEST FOR
LEAVE TO FILE RESPONSE TO
RLI'S "BRIEF RE NEW AUTHORITY"**

Date: April 7, 2008

Time: 9:00 a.m.

Judge: Hon. Susan Illston
Courtroom: 10, 19th Floor

Action Filed: January 7, 2008

Removal Date: February 6, 2008

Trial Date: None Set

1 Plaintiff Crowley Maritime Corporation ("Crowley") hereby requests leave to file its
2 Response to the Brief Re New Authority filed by defendant RLI Insurance Company ("RLI")
3 on March 26, 2008.

4 Dated: April 1, 2008

Respectfully submitted,

5 PILLSBURY & LEVINSON, LLP

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7 By: /s/ Richard D. Shively

8 Richard D. Shively

9 Attorneys for Plaintiff

10 CROWLEY MARITIME CORPORATION

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12 Plaintiff,
13 vs.
14 FEDERAL INSURANCE COMPANY; TWIN
15 CITY FIRE INSURANCE COMPANY; RLI
16 INSURANCE COMPANY; and DOES 1-20,
17 inclusive,
18 Defendants.
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1 Plaintiff Crowley Maritime Corporation (“Crowley”) submits the following response to
 2 the “Brief Re New Authority” filed by defendant RLI Insurance Company (“RLI”) on March
 3 26, 2008.

4 RLI relies upon *Qualcomm, Inc. v. Certain Underwriters at Lloyd's*, 2008 Cal.App.
 5 LEXIS 394 (March 25, 2008) (“*Qualcomm*”), a new decision by the California Court of
 6 Appeal that resolves an issue not presented in this action -- whether an insured’s settlement
 7 with its primary insurer for an amount substantially below the primary limits, which creates a
 8 “gap” that conclusively establishes that the primary limits will never be fully exhausted by
 9 payment of the subject loss, relieves an excess insurer of liability for the unreimbursed portion
 10 of the loss which exceeds the primary limits.¹ Here there has been no settlement between the
 11 insured (Crowley) and any of the insurers involved.

12 The present case is also distinguishable from *Qualcomm* in that there was no allegation
 13 in the latter case -- as there is here -- that the excess insurer breached the implied covenant of
 14 good faith and fair dealing (1) by failing to investigate the merits of a proposed settlement
 15 which exceeded the excess policy’s threshold of coverage, (2) by failing to give good faith
 16 consideration to the proposed settlement, and (3) by failing to consent to the settlement even
 17 though it was a reasonable good faith settlement. See Complaint ¶¶ 9, 11, 28-35. As
 18 demonstrated in Crowley’s opposition brief (at pp. 4-9), Crowley has fully matured claims
 19 based on the foregoing failures that breached the implied covenant. *Qualcomm* involved no
 20 such failures, nor any alleged breach of the implied covenant.

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23 ¹ The *Qualcomm* decision was one of two cases cited by Defendant Twin City Fire Insurance
 24 Company (“Twin City”) in the “Statements of Recent Decisions” it filed on March 26, 2008.
 25 The other new decision cited by Twin City, *Manzarek v. St. Paul Fire Ins. Co.*, No. 06-55936,
 26 2008 WL 763385 (9th Cir. March 25, 2008), is also inapposite. *Manzarek* relied on *Waller v.*
 27 *Truck Ins. Exch., Inc.*, 11 Cal.4th 1 (1995), for the proposition that there can be no breach of the
 28 implied covenant where there is no right to coverage. However, as explained at pp. 5-6 of
 Crowley’s opposition brief, that principle only applies where there is no *potential* coverage
 under the policy, not where -- as here -- it is claimed that a condition precedent to the
 obligation to pay benefits has not yet occurred, but where there is no contention that the
 condition precedent will not be satisfied later.

1 In *Qualcomm*, the insured suffered a \$29 million loss. The insured settled with its
 2 primary insurer (National Union) for only \$16 million, even though the primary limits were
 3 \$20 million. The settlement for less than the amount of the primary limits created a gap which
 4 ensured that the full \$20 million primary limits would never be paid in connection with the
 5 subject loss. The insured nevertheless sued its excess carrier (Lloyd's) seeking reimbursement
 6 for \$9 million -- the portion of the unreimbursed loss that exceeded the primary limits. The
 7 insured argued that the primary limits were effectively exhausted by the combination of the
 8 \$16 million paid in settlement by National Union and the \$4 million which it was prepared to
 9 absorb as an uninsured loss. (Qualcomm sought to recover from Lloyd's only the \$9 million by
 10 which the subject loss exceeded its \$20 million primary limits, rather than the full \$13 million
 11 by which the loss exceeded the \$16 million settlement paid by National Union.)

12 The present case is distinguishable because Crowley has reached no settlement with
 13 any of its insurers, and no insurer has been given any release. As a result, there is no certainty
 14 here, as there was in *Qualcomm*, that the primary limits will never be fully exhausted by the
 15 payment of the subject loss. The *Franklin Fund* Loss exceeds \$22 million (Complaint ¶16),
 16 which is sufficient to fully exhaust all the insurance underlying RLI's second level excess
 17 policy (both defendant Federal Insurance Company's \$10 million primary limits and the \$10
 18 million limits of the first level excess policy issued by defendant Twin City Fire Insurance
 19 Company). Nor is there any reason why Crowley should be required -- as implied by Twin
 20 City and RLI -- to prosecute three successive actions, involving the same coverage issues
 21 under excess policies which "follow form" with the primary policy, in order to obtain complete
 22 relief. That argument (based on the *Iolab* decision) is debunked in Crowley's opposition brief
 23 (at pp. 9-13).

24 The *Qualcomm* opinion implicitly recognizes that, if the insured in that case had not
 25 released its primary insurer, it could have pursued coverage from both the primary and excess
 26 insurers in a single action, despite the fact that the primary limits had not yet been fully
 27 exhausted by payment. The *Qualcomm* court acknowledged that, under California law, "'The
 28 obligation to indemnify . . . arises when the insured's underlying liability is established.'"

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1 2008 Cal.App. LEXIS at *17, quoting *Montrose Chemical Corp. v. Admiral Ins. Co.*, 10
 2 Cal.4th 645, 655, fn.2 (1995), and *Safeco Ins. Co. of America v. Fireman's Fund Ins. Co.*, 148
 3 Cal.App.4th 620, 630 (2007); *see also* Crowley's opposition brief at pp. 16-17. However, the
 4 *Qualcomm* court found that the insured's release of the primary insurer -- which resulted in its
 5 not being a party to the insurance coverage action -- had precluded the trial court from
 6 determining whether, prior to the release, the primary insurer had incurred an obligation to
 7 indemnify its insured for the full amount of the primary limits at the point in time when the
 8 insured's underlying liability was established. *See* 2008 Cal.App. LEXIS at *39 ("*Home*
 9 *Indemnity*'s result is based on disparate facts and circumstances rendering it inapposite here,
 10 including the fact that National is not a party to this action and the trial court cannot determine
 11 its liability, particularly where it has received a release from *Qualcomm*").

12 Finally, because there was no contention in *Qualcomm* that the excess insurer had
 13 breached a duty to accept a reasonable settlement, there was no argument in that case -- as
 14 there is here -- that the excess insurer had thereby waived its right to enforce conditions
 15 precedent such as the loss payable clause which is the subject of the present motions. *See*
 16 Crowley's opposition brief at pp. 20-21.

17 For all the foregoing reasons, *Qualcomm* does not support the relief sought by RLI and
 18 Twin City, whose motions to dismiss should be denied.

19 Dated: April 1, 2008

Respectfully submitted,

20 PILLSBURY & LEVINSON, LLP

22 By: /s/ Richard D. Shively
 23 Richard D. Shively

24 Attorneys for Plaintiff
 25 CROWLEY MARITIME CORPORATION

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